

BEFORE THE ARIZONA CORPORATION



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MARC SPITZER
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

DOCKETED

APR 21 2004

DOCKETED BY

NR

IN THE MATTER OF MORENCI WATER
AND ELECTRIC COMPANY -
APPLICATION FOR APPROVAL OF AN
ELECTRIC SERVICE AGREEMENT WITH
PHELPS DODGE MORENCI, INC.

DOCKET NO. E-01049A-04-0135

DECISION NO. 66937

ORDER

Open Meeting
April 20 and 21, 2004
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Morenci Water and Electric Company ("MWE") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On February 25, 2004, MWE filed an application for approval of an electric service agreement with Phelps Dodge Morenci, Inc. ("PD"). On March 3, 2004, MWE filed a letter to extend the time clock for review of the agreement to April 21, 2004. On March 17, 2004, MWE filed a revised agreement to correct errors.

3. MWE currently provides service to PD for its mining operations in Greenlee County under an electric service agreement approved by the Commission on April 8, 1998 (Decision No. 60807).

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1 4. MWE has constructed a 345 kV transmission line. The additional line was needed
2 to provide additional transmission capacity to meet PD's increased load, to increase the reliability
3 of the MWE electrical system, and to increase access to the wholesale power market. The line is
4 expected to be energized by May 31, 2004. Usage of the new transmission line will reduce and
5 eventually replace usage of Southwest Transmission Cooperative's line.

6 5. The proposed agreement is almost identical to the current agreement except that
7 MWE and PD have agreed to add a transmission charge to cover the cost of the new transmission
8 line. Over 98 percent of the capacity of the new line will be used to provide service to PD.

9 6. MWE does not have a tariff specifically for large industrial customers such as PD.
10 Currently, all customers pay a customer charge of \$5.50 per month, an energy charge of \$0.1015
11 per kWh, and a purchased power and fuel adjustor of -\$0.01391 per kWh. Under the current
12 agreement, PD pays a customer charge of \$500.00 per month and an energy charge based on
13 MWE's system average cost of electricity (including power, energy, and transmission costs and
14 losses) plus a markup of \$0.00035 per kWh. MWE's purchased power and fuel adjustor does not
15 apply to PD because any increases or decreases in purchased power costs are reflected in the
16 calculation of MWE's system average cost of electricity. The proposed agreement contains the
17 same rates but adds a transmission charge of \$0.001738 per kWh. The transmission charge is
18 calculated to cover the capital cost of the new line as well as the costs for operation, maintenance,
19 and property taxes related to the line.

20 7. As a result of the new transmission line, MWE's system average cost of electricity
21 will go down as transmission costs to Southwest Transmission Cooperative are reduced. This will
22 result in a lower energy charge for PD.

23 8. MWE has requested that the agreement be approved with an effective date of May
24 31, 2004. The agreement would remain in effect as long as PD maintains any business operations
25 in MWE's certificated area but could be terminated by either party with six-months notice.

26 9. Staff has recommended that the proposed electric service agreement, as revised, be
27 approved because the revenue that MWE would receive from PD would continue to cover the
28 costs of serving PD.

10. Staff has also analyzed this application in terms of whether there were fair value implications. Assuming that the new transmission line were to be put in rate base, Staff has estimated that the new transmission line and the proposed agreement would result in total operating revenues for MWE of \$65,200,000, an estimated rate base of \$17,100,000, and a rate of return of 8.8 percent. These fair value findings are made only for the purposes of this proceeding and should be strictly limited for use in this proceeding and should not be used for any purpose in any subsequent rate proceeding.

11. Staff has further recommended that the Commission specify in its Order that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with PD.

CONCLUSIONS OF LAW

1. MWE is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over MWE and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated March 26, 2004, concludes that it is in the public interest to approve the electric service agreement, as revised.

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ORDER

THEREFORE, IT IS ORDERED that the electric service agreement, as revised, be and hereby is approved.

IT IS FURTHER ORDERED that approval of the electric service agreement at this time does not guarantee any future ratemaking treatment of the agreement with PD.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN

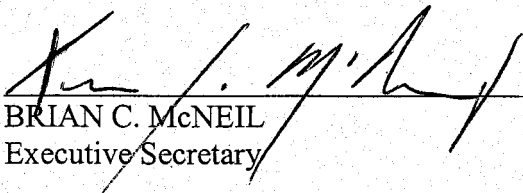

COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 21st day of April, 2004.


BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:BEK:red/TS

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